



National Audit Office

Consultation response document

by the National Audit Office

**Local audit in England
Code of Audit Practice**

**Draft Code of Audit Practice 2024:
Consultation response**

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Introduction

- 1 The Local Audit and Accountability Act 2014 (the 2014 Act) makes the Comptroller and Auditor General (C&AG) responsible for the preparation and maintenance of the Code of Audit Practice (the Code) and gives the C&AG the power to issue guidance to auditors in support of the Code, to which auditors must have regard when carrying out their work. Schedule 6 of the 2014 Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2020.
- 2 On 8 February 2024, we launched a public consultation on an exposure draft of the new Code. The consultation closed on 7 March 2024. This document sets out the issues we have considered as a result of the feedback to the consultation, and highlights the key changes made to the text of the final draft of the Code, which has now been laid in Parliament and is subject to Parliamentary approval.
- 3 We received a total of 61 responses to the consultation. Appendix One provides a list of respondents by type. We also held further discussions with a range of stakeholders to inform the development of the new Code. We are very grateful to those who took the time to participate in the consultation.

Background and context

Scope of the consultation

- 4 The Code sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the 2014 Act. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies. Schedule 6 of the Act extends this requirement to include NHS Foundation Trusts. Local auditors must comply with the Code.
- 5 In the C&AG's ['Progress update: Timeliness of local auditor reporting on local government in England', January 2023](#), he reported the significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. Just nine per cent of local government bodies received opinions in time to publish audited 2020-21 financial statements by the 30 September deadline. This was a significant reduction from 45% for 2019-20, even allowing for the tighter publication deadlines compared with the previous year. Only 12% of local government bodies received opinions in time to publish audited 2021-22 financial statements by the deadline, despite a further extension of the publication deadline to 30 November 2022.
- 6 Delays in audit opinions undermine the effectiveness of local audit: for example, accountability and transparency are reduced for relevant authorities as users of the accounts cannot obtain an accurate picture of an authority's financial position. Delays also undermine the effectiveness of value for money (VFM) arrangements work and the exercise of additional powers, such as reporting in the public interest, as there is an increased risk that recommendations, reports and other interventions come too late to have their desired impact.
- 7 There are also detrimental impacts elsewhere in the public audit system, including delays to the certification of central government accounts that include material local government pension scheme information, and delays in publication and risks of reduced quality for the Whole of Government Accounts. The delivery of audits at local NHS bodies is also affected, as they rely on the same market of local audit firms as local government bodies.
- 8 Minister Lee Rowley, the then Minister for the Department for Levelling Up, Housing and Communities' (DLUHC) issued a cross-system statement (14 July 2023)¹ on proposals setting out the actions that the local audit sector and others propose to take to tackle the issue of delays in local public audit, clear the current backlog, and return local audit to a sustainable footing. In line with the system-wide objectives outlined by the Minister, the C&AG established a Programme Board to develop proposals to consider in relation to a replacement Code which aims to play its part in bringing local auditor reporting up to date and ensure that reporting in future is more timely.

¹ Local Audit Delays – Cross-system statement on proposals to clear the backlog and embed timely audits, 14 July 2023: committees.parliament.uk/publications/40932/documents/199432/default/

- 9 Given the requirement for concerted action, a cross-system statement was issued explaining the package of measures and how the various elements are intended to interact. This joint statement, which can be accessed [here](#), provides the context for the consultation on the Code.
- 10 Since our consultation, Minister Jim McMahon of the Ministry of Housing, Communities and Local Government (MHCLG) issued a statement (30 July 2024)² setting out the Government’s proposals, together with Financial Reporting Council (FRC) and the National Audit Office (NAO), to address the backlog and the intention to lay secondary legislation amending the Accounts and Audit Regulations (2015) and to lay a new Code of Audit Practice.
- 11 Previously, there was no statutory duty on auditors to give an opinion on the financial statements by a particular deadline. The main proposed amendment in the draft Code is to require auditors to give an opinion by a particular deadline, where the government has set a particular date by which relevant authorities should publish audited accounts.
- 12 MHCLG has set out a series of statutory deadlines, known as ‘backstop’ dates, for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015-16 to 2022-23. This would introduce for each financial year a date before which local bodies should publish audited accounts, and by which auditors would also be required to give their opinion. This would mean that for any given year, there would be a date by which almost all local authorities would have had their audits completed and the outcome published, even if that means the opinion is qualified or disclaimed (modified).
- 13 MHCLG also proposes to have ongoing backstop dates for years up to and including 2027-28. These backstop dates are intended to achieve a balance between restoring timely audit and returning to unmodified audit opinions for the vast majority of bodies.

² Local Audit Backlog – Statement outlining the proposals Government – together with the Financial Reporting Council, the National Audit Office, and organisations in the wider system – is taking, which are designed to address the backlog and put local audit on a sustainable footing, 30 July 2024: [Written statements - Written questions, answers and statements - UK Parliament](#)

Summary of consultation responses

- 14 The consultation invited responses to questions across the range of auditors' responsibilities on the exposure draft of the Code. We asked for comments on the text of the new Code itself, so respondents could draw attention to any particular points or concerns that we should consider when finalising the text.
- 15 This section of the response document follows the structure of the new Code. It focuses on the main themes arising as a result of respondents' feedback, and highlights the changes we have made to the final text of the new Code as a result. We have not, however, highlighted more minor drafting changes where they do not substantially impact on the requirements of the Code.
- 16 The consultation received 61 responses. This was significantly more than were received for the consultation on the 2020 Code (38 responses), indicating the level of interest in the issues. Some responses were on behalf of representative organisations (Appendix One provides a list of respondents by type), so the total number of bodies represented was even higher.
- 17 In terms of responses overall:
 - there was no significant opposition to the proposed changes in the Code and no alternative solutions were offered by respondents;
 - responses indicated a clear need from auditors for detailed guidance on implementing the proposals (to be co-developed with the FRC, who have oversight of auditing standards) and a clear desire from local authorities in particular for wording on the opinion on the financial statements to make clear the nature of opinions given under 'backstop' arrangements; and
 - it is clear that timely value for money arrangements assurance is particularly valued by local authorities.

Chapter One: Status of the Code, application and general principles

- 18 Public Sector Audit Appointment's national auditor appointment scheme covers 470 (99%) out of 475 eligible local government bodies. The most recent procurement covered audits from 2023-24 to 2027-28. Major procurement exercises often lead to more changes in auditor portfolios but, on this occasion, in addition to the changes in auditor appointments, the period of time between a new auditor being appointed and the previous auditor completing their work is extended considerably by the backlog. The draft Code therefore aims to be more explicit that co-operation between auditors includes this extended 'handover period'. It also aims to ensure that any significant current issues arising during this extended period are identified and reported on in as timely a manner as possible.

- 19 The consultation asked: *Do you agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor? (The handover period is defined as the period from the date from which the new auditor's appointment takes effect to the date on which the outgoing auditor certifies completion of their audit).*
- 20 Respondents were broadly in favour of enhanced co-operation, both from audit firms and other stakeholders. Audit firms especially asked for more guidance to support the handover period; this is something the NAO will explore but does not require additional changes to the Code itself.
- 21 No further changes were made to paragraph 1.15 of the final draft of the Code, which encourages auditors to co-operate effectively where there is a change in the appointed auditor and defines the audit handover period.
- 22 Paragraph 1.5 sets out when the Code comes into force. Due to the possibility of this Code coming into force whilst work is ongoing for some NHS 2023-24 audits, paragraphs 1.5, 3.2 and 4.2 have been subsequently updated to confirm that NHS audit work up to and including 2023-24 will be undertaken in accordance with the 2020 Code. This means all NHS audits (including any signed off late or relating to earlier years) will be completed and reported on under the same Code.

Chapter Two: Audit of the financial statements

- 23 The 2014 Act sets out the requirement for local auditors to give an opinion on the body's statement of accounts. To meet their duties, the Code requires auditors to comply with auditing standards currently in force (and as may be amended from time to time), having regard to any other relevant guidance and advice issued by the FRC, and by the NAO on behalf of the C&AG.
- 24 As set out under the 'background and context' of this document, the main proposed amendment in the exposure draft of the Code was to require auditors to give an opinion by a particular deadline, known as 'backstop' dates, where the government determines that it wishes local government bodies (excludes NHS bodies) to publish audited accounts within a particular timeframe.
- 25 While the 'backstop' date(s) are to be introduced through amendments to regulations and given effect by the draft Code, it will remain for the appointed local auditor to determine what type of opinion they issue and, especially in relation to more recent years, there is the likelihood that there will be fewer unqualified opinions issued than would normally be expected. Where a modified opinion is as a result of the introduction of backstop dates, it is expected that the audit report will make this clear.
- 26 The exposure draft of the Code also set out circumstances in which it may not be possible for the auditor to issue their audit report in time for the relevant authority to publish its accounts by the specified date. Such circumstances include where the auditor is considering an objection that may have a material impact on their opinion on the financial statements; where in the auditor's judgement recourse to the Court could be required; or where the auditor is unable to conclude as to whether they are satisfied with the body's VFM arrangements at the 'backstop' date.

- 27 The consultation asked: *Do you think that the proposed Code requirements in respect of the 'backstop' dates are sufficient to require and enable auditors to report their opinion at the backstop date, apart from in the exceptional circumstances set out? If not, what needs to be added or strengthened?*
- 28 Respondents were generally content with the wording proposed, though there was a strong desire for clear guidance setting out how auditors should approach issuing a modified or 'disclaimed' opinion, and how to approach rebuilding assurances over time. Work on accompanying statutory guidance is on-going and a suite of Local Audit Reset and Recovery Implementation Guidance (LARRIGs) will be published shortly.
- 29 Respondents were also supportive of the proposed exemptions, and agreed that exemptions in the Statutory Instrument to amend the Accounts and Audit Regulations (2015) should mirror those set out in the Code.
- 30 Through wider discussion with stakeholders, there were some queries regarding the application of exemptions. These included the following.
- Whether the exemption regarding objections was necessary if an audit opinion was to be disclaimed, since the objection will not therefore impact the opinion. However, given that the Code may last for five years, we believe this should be retained, as the exemption will likely be more relevant once the local audit system has recovered.
 - The exemption for audits where auditors cannot conclude on VFM arrangements. Given the agreed need to ensure the historic backlog is cleared, we have updated the final draft of the Code which removes this exemption for historic audits up to 2022-23 only, and retained the 'special reporting provisions' which allow for VFM arrangements work to be completed and reported via the audit certificate if necessary. This means historic opinions up to and including 2022-23 should not be delayed by a historic VFM arrangements issue. The exemption is in place, however, from 2023-24 onwards, as it is one of the key measures intended to restore timely reporting.
- 31 Paragraphs 2.13 to 2.14 of the final draft Code set out the requirement on auditors to issue the audit report in time for the relevant authority to publish its accounts by the specified dates that are currently proposed as amendments to the Accounts and Audit Regulations. Limited exemptions to this requirement are also set out.

Chapter Three (main Code for all local bodies) and Schedule Three (relating to incomplete audits for bodies other than local NHS bodies): The auditor's work on value for money arrangements.

- 32 The 2014 Act places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This is referred to as work on arrangements to secure value for money (VFM arrangements).
- 33 The Code currently requires auditors to write a commentary on the body's arrangements against specified reporting criteria: financial sustainability; governance; and improving economy, efficiency and effectiveness. Where the auditor identifies a significant weakness in arrangements, they should report them to the body and raise recommendations setting out what the body needs to do to address them.
- 34 On-going engagement with local auditors and the sector identified that significant delays to VFM arrangements work is reducing the value added by such work. While there is evidence of some auditors using the approach to raise concerns in a more timely manner, given the extent of the backlog of work, this is not the case more generally.
- 35 Whilst the exposure draft of the Code did not propose any significant changes to the principles of the overall approach currently applied, Schedule 3 introduced a reduced scope of VFM arrangements work relating to incomplete audits for bodies other than local NHS bodies from 2020-21 up to and including 2022-23. To bring reporting up to date, the work required focusses on aspects of financial sustainability and governance, with full scope VFM arrangements work across all three criteria proposed to be restored by 2023-24, the first year of the new audit contracts.
- 36 This will mean that VFM arrangements reporting for incomplete audits up to and including 2022-23 will vary in terms of its coverage depending on when the auditor undertakes the work and the approach taken by individual audit firms. However, this compromise is necessary to restore timely VFM arrangements reporting as quickly as possible.
- 37 The consultation asked the following questions:
- Do you agree that auditors should be required to return to the full scope of VFM arrangements work under the three reporting criteria set out under paragraph 3.11 of Chapter Three of the Code from audit year 2023-24 (the year of which the new audit appointments contracts under PSAA's national scheme start)?*
- Do you agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis for incomplete audits up to and including 2022-23?*
- Do you have any comments on the proposals for the reduced scope of proper arrangements set out under the reporting criteria that auditors are required to report for incomplete audits up to and including 2022-23?*

- 38 Overall, respondents were in favour of the proposed reduction in scope for historic audit years and combined reporting. While a few respondents favoured waiting until 2024-25 to re-introduce the full scope of VFM arrangements work, the vast majority favoured its return as soon as possible.
- 39 We have therefore made little change to the final draft sections of the Code under Chapter Three and Schedule Three. However, we have clarified that the 2015 Code still applies to incomplete audits up to and including 2019-20, in order not to introduce completely new requirements on auditors with regard to their work on VFM arrangements that only came into force under the 2020 Code.

Chapter Four (main Code for all local bodies) and Schedule Four (relating to incomplete audits for bodies other than local NHS bodies): Auditor reporting

- 40 Local auditors undertake a key role in providing local bodies, local people and other stakeholders with independent assurance about their financial statements and arrangements to manage their business and finances. It is therefore essential that the way this is reported to local bodies – and to the public – is as effective and transparent as possible and promotes local improvement. Auditors need to ensure that where they are identifying risks and issues, they are drawing attention to them promptly and clearly, so that bodies can take appropriate corrective action and the executive can be held to account.
- 41 Under the 2020 Code, the auditor’s annual report brought together all of the auditor’s work over the year. A key element of the auditor’s annual report is the commentary on the specified reporting criteria regarding VFM arrangements set out in Chapter Three. In order to bring reporting up to date, and recognising the perishability of the usefulness of this work for outstanding audits, Schedule 4 of the exposure draft of the Code allowed for the combining of historic years’ auditor’s annual reports to a single report covering incomplete years’ VFM arrangements work and focussing on significant weaknesses.
- 42 For incomplete audits up to and including 2022-23, the exposure draft of the Code set the requirement that auditors should aim to issue their auditor’s annual report as soon as they have completed their work on VFM arrangements.
- 43 Chapter Four of the exposure draft proposes that, rather than being issued upon completion of the audit, the auditor’s annual report instead provides a summary of progress on the audit at a point in time; and, for non-NHS bodies only, will be expected to be issued in draft to those charged with governance by 30 November each year from 2023-24, irrespective of the position on the audit. The purpose of this was to enable auditors to report regularly on most of the VFM arrangements work in a more timely and predictable way.
- 44 Whilst the changes to the exposure draft of the Code were largely in relation to audits of local government bodies, the consultation also highlighted that for local NHS bodies, auditors should aim to issue their auditor’s annual report no later than one month after the date on which they have issued their audit report. Where the auditor is unable to issue their audit report in accordance with the requirements set out in the NHS timetable, the auditor should consider whether it is in the public interest to issue their auditor’s annual report to reflect the work completed to date.

45 The consultation asked the following questions:

Do you agree with the approach to enable the auditor to issue a combined commentary as part of a single auditor's annual report for incomplete audits up to and including 2022-23? and

Do you agree that the Code should specify the 30 November as the date by which auditors should issue their auditor's annual report based on the work they have completed so far rather than wait for the audit to be fully completed?

46 Respondents were supportive of combined reporting for incomplete audits up to and including 2022-23.

47 Respondents were generally supportive of the proposals to improve the timeliness of auditor reporting by introducing a truly 'annual' dimension to auditor reporting through the proposed 30 November 'auditor's annual report'. While the vast majority of responses raised no issue with the proposed November date, some points were raised for further consideration, as set out below.

48 While most respondents supported the concept of an annual report irrespective of the state of completion of the audit, some said they would prefer the report to come at the end of the audit when the work was complete.

49 We wish to retain the discipline and improved timeliness that the 30 November proposal will support; therefore, we have not removed this requirement, given it was generally supported. However, we have included additional wording in the final draft of the Code to allow auditors to update and re-issue the auditor's annual report at the conclusion of the audit.

50 There was a suggestion from both audit firms and local bodies for consideration to be given to the timing for this change. There was a view that, given the current backlogs, the November 2024 auditor's annual report may contain very little in terms of useful updates of progress or commentary on arrangements, and might divert auditors from their work on 2023-24 audits. We have therefore amended the requirement in the final draft Code under Chapter Four, paragraphs 4.9 to 4.10 to introduce from November 2025 the 'annual' auditor's annual report that relates to the 2024-25 audit year. Flexibility has been provided in 2023-24 given auditors' focus will be to clear the backlog of incomplete audits up to and including 2022-23 and the timing of when the revised Accounts and Audit Regulations come into force.

51 Furthermore, Schedule Four of the final draft Code also clarifies that the 2015 Code still applies to incomplete audits up to and including 2019-20 as explained in paragraph 40 above.

Chapter Five: The auditor's additional powers and duties

52 The only proposed change here was in paragraph 5.5, to encourage auditors to consider making use of their wider public reporting powers where they issue a modified opinion for reasons other than the 'backstop' date. No particular comments were received and therefore this proposed change has been included in the final draft Code.

Equalities Impact Assessment

- 53 The consultation asked: *Do you have any comments on whether any of the proposals outlined above could have disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?*
- 54 We received very few comments relevant to this question, other than one relating to vulnerable people and the impact on services of delayed audits; and one suggesting the NAO completes an assessment before the Code is laid. We therefore conducted an initial assessment which concluded a full assessment was not required. This is because the Code only sets out auditors' responsibilities, it does not impact on local government policy decisions regarding how those bodies deliver services to the local population or directly impact the users of local public bodies.

Appendix One – List of respondents by type

Body type	Number of responses
Academic	1
Accountancy	2
Appointing person	2
Chief Constable (corporate sole)	2
Combined Authority 1 of which represented a collective response	2
Local council	33
Councillor	1
Fire and rescue authority	1
Local audit firm	8
Government department	1
Police and Crime Commissioner (corporate sole)	2
Police, Fire and Crime Commissioner (corporate sole)	1
Professional Body	3
Sector representative	1
Treasurer Society	1
Total	61

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